



Petroleum Market Report

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Energy Information Administration
Office of Oil & Gas

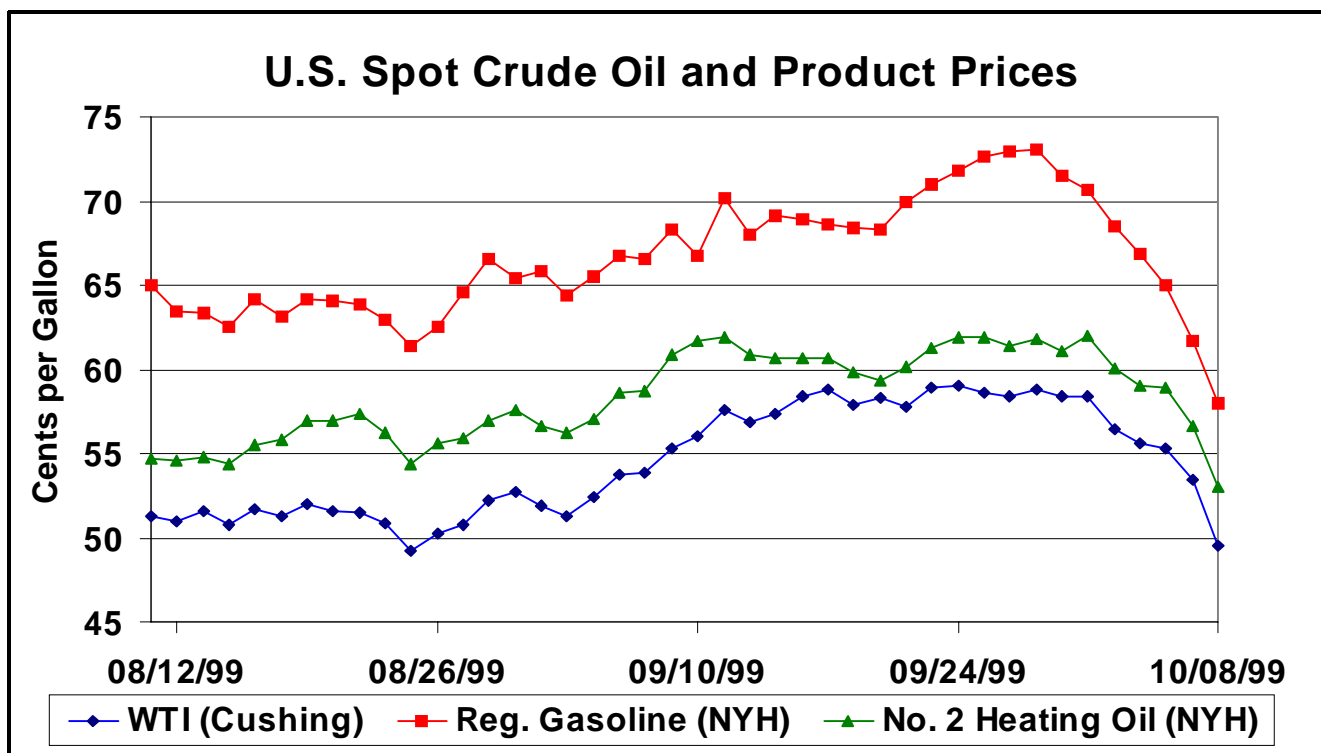
MARKET SUMMARY

A sharp across-the-board decline in U.S. petroleum spot and futures prices last week returned markets to price levels last seen in August. A combination of impacts on world and U.S. crude oil markets combined to trigger an extended selloff, considered overdue by some, reducing prices to levels more in line with existing fundamentals. Along with a continued period of adjustment in the wake of the September 22 OPEC meeting, markets dealt with an upcoming meeting of major producers in November, developments regarding Norway and Iraq, lower OPEC compliance, and White House comments on possible sales from the Strategic Petroleum Reserve.

Crude oil - spot and NYMEX prices plunged by over \$3.50 per barrel for the week, gathering downward momentum by Friday. The week began with indications of a possible Norwegian output increase in 2000, along with a U.N. vote to allow more Iraqi exports. The catalyst for much of the week's decline was Tuesday's report that Saudi Arabian, Venezuelan, and Mexican energy ministers will meet in November. Despite statements to the contrary, markets appeared concerned that the meeting would revisit near-term output levels. WTI spot and futures prices ended the week below \$21 for the first time since August 25.

Gasoline - prices collapsed on NYMEX and across all U.S. spot markets, jointly influenced by falling crude prices and restarting of key units at several refineries. Markets east of the Rockies fell to mid-summer levels, while West Coast prices again neared their September lows.

Distillate - closely paralleled changes in crude markets, with most prices falling about 9 cents per gallon, somewhat less on the West Coast. Despite a small but unexpected stockdraw for the week ending October 1, inventories remain ample heading into the heating season.



CHRONOLOGY OF RECENT MARKET EVENTS

- 10/8 - falling** - all prices fell sharply, completing a week of uninterrupted declines, as spot and NYMEX WTI dropped below \$21 per barrel for the first time since August. Growing doubts about OPEC production discipline over the coming months remained the principal source of market concern, though a comment by President Clinton regarding a possible SPR sale added further pressure.
- 10/7 - falling** - the ongoing price decline gathered momentum, taking WTI spot and futures below \$22.50 per barrel, amid increasing concerns about reported cracks in OPEC compliance with production cuts in September. Mexican and Venezuelan officials offered assurances that their November joint meeting with Saudi Arabia would not revisit cuts already agreed upon through March 2000.
- 10/6 - falling** - spot and futures prices continued downward, led by gasoline, largely in reaction to the weekly API and EIA supply reports. Crude oil fell only slightly, as EIA reported a small stockdraw, contradicting the unexpected build reported earlier by API.
- 10/5 - falling** - prices dropped for a second day, though less than Monday, as late buying partially offset early losses. The decline was attributed to continuation of Monday's selloff, with added pressure from reports that Saudi Arabian, Venezuelan, and Mexican officials will meet in November.
- 10/4 - falling** - crude oil and product prices fell sharply across the board, attributed to profit-taking combined with concerns about possible global production increases. Indications that Norway might increase output in 2000 concerned traders, along with a U.N. Security Council vote to allow Iraq to sell an additional \$3 billion worth of crude oil to make up for past shortfalls.
- 10/1 - mixed** - price movements varied widely, with crude oil nearly flat, gasoline down, and heating oil up. WTI spot and futures remained precariously above \$24.50 per barrel, amid speculation about a coming selloff. Gasoline eased on reports that Valero will restart its New Jersey cat cracker as early as next week, while distillates were supported by strong European gasoil prices.
- 9/30 - falling** - all prices moved lower, as crude oil continued to retreat from the 33-month high struck mid-Wednesday. Product prices fell more sharply, reflecting selling ahead of October NYMEX contract liquidation at the close.
- 9/29 - rising** - spot and futures prices gained marketwide, lifted by a strong crude oil stockdraw in weekly supply reports from both API and EIA. NYMEX crude briefly surpassed \$25 per barrel before profit-taking dropped it back below the previous week's 32-month high.
- 9/28 - mixed** - gasoline prices rose, while crude oil and distillate fell, for a second straight day. Trading was reported as "quiet" ahead of the weekly supply reports, with speculation about potential Iraqi crude sales beyond the current U.N. ceiling the major new factor.
- 9/27 - mixed** - crude oil and distillate prices eased on profit-taking after the previous week's modest gains, while gasoline jumped in late trading on a Philadelphia-area refinery problem. Valero reported shutting down a cat cracker at its Paulsboro, New Jersey, refinery for an unknown period.